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SENSITIVE
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SUBJECT: RUDD PULLS PLUG ON EMISSIONS TRADING IN 2010

REF: CANBERRA 411

11. (SBU) Summary: Australia will delay implementation of its proposed economy-wide emissions trading plan until July 2011 in response to strong political opposition (reftel) and the global recession. PM Kevin Rudd announced May 4 changes to the government's Carbon Pollution Reduction Scheme (CPRS) intended to secure the votes to win Senate passage this year.

Facing growing resistance among Coalition and independent senators, and vehement pushback from the Greens, Rudd and Climate Change Minister Penny Wong have chosen the lowest cost compromise by delaying the CPRS for a year and then imposing cost controls to further protect industry from initial costs of the scheme from 2011 to 2013. If international agreement on tough emissions reduction targets is reached, however, Australia's target for 2020 would increase from 15 percent to 25 percent. The compromise may not be enough to win Greens support, but may be enough for the Coalition to support passage of the CPRS legislation before the international meeting at Copenhagen in December. End Summary.

START DATE DELAYED

12. (SBU) Rudd announced the changes to the six bills comprising the CPRS at a news conference on May 4, saying they were necessary to adapt to the changed global economic conditions since the CPRS White Paper was released in December 2008. The changes will move the start date of the CPRS to 2011 instead of 2010, fix carbon prices at A\$10 a ton for the first year of the scheme, increase assistance for trade exposed industries, attach a heavily-conditioned target of 25 percent reduction above the 15 percent in the CPRS now, and establish a Carbon Trust to help fund voluntary actions to reduce emissions. The 25 percent target will be adopted only if a global agreement is reached that includes aggressive action to hold atmospheric CO2 concentrations at 450 parts per million by 2050, which Rudd associated with a "scientific chance" to save the Great Barrier Reef. The changes are designed to answer many of the attacks from the Opposition and industry that the scheme was too aggressive in light of the global financial crisis. Rudd said that the

amended legislation will be put before Parliament as soon as possible, likely during the next sitting, which begins the week of May 11. Rudd and Wong still hope to pass the legislation this year in order to have a credible national commitment on the table before UNFCCC negotiations culminate at Copenhagen in December.

13. (SBU) The changes to the CPRS clearly aim to put greater pressure on the Coalition to support the scheme. Support for the CPRS has eroded steadily with worsening economic news over the past year, and major industry and political opponents have been increasingly vocal against the plan. Australian Cement Industry Federation CEO Robin Bain told econoff on May 1 that she was convinced the CPRS was headed for defeat. Most telling, Bain said, was that Rudd had not made a major public appearance to support the scheme in several months, and key industries like LNG and manufacturing, even though they had won government support within the CPRS legislation were still arguing publicly against it. Climate Institute analyst Edwin Jackson told econoff on April 27 that there were "a range of scenarios" facing the CPRS, including defeat, modification, or passage with Coalition support. Jackson said that polling showed general support for climate change was still strong in Australia despite the global downturn. He acknowledged that the accelerating pace of action in the U.S. was helping the government's push here, but said that the plan then in place was drawing fire from all sides, especially as economic news worsened. The Coalition-sponsored Pearce Review of the CPRS was released on April 29, and said that the government had so

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far failed to adequately assess the environmental costs and benefits of the CPRS and argued that it would lead to lower wages in real terms over the long haul. Pearce also suggested the economic analysis of the risks to competitiveness and transitional impacts of the CPRS were inadequate. Opposition Leader Turnbull told the press on May 4 that the Coalition would not back the CPRS legislation and called on the government to refer the scheme, and alternatives like a carbon tax, to the Australian Productivity Commission for a detailed review.

ECONOMIC WOES CONTINUE

14. (SBU) The announcement comes as economic news continues to worsen for Australia. Unemployment claims continue to rise and housing prices are falling across Australia as the recession sets in. The May 12 budget is believed by most to include large-scale government borrowing to pay for a range of Rudd's key obligations. Rudd was careful to argue in his press conference on the CPRS that it was the government's "aspiration" that the CPRS will be self-funding and not increase costs on households in the initial phases, but did not guarantee that Australian families would not see any significant price increases.

15. (SBU) Comment: In making these changes to the CPRS, Rudd has recognized that the scheme in its initial form was headed for defeat in the Senate. While both independent senators and the Greens are still unlikely to support this new scheme, the changes are clearly aimed at attracting Coalition support in the Senate. The delay pushes the impact of the scheme out beyond the next election and matches Turnbull's demand for a 2011 start date. Big business has now gotten a better deal from the Government and may decide that this is the best deal it will get. In addition, the tougher conditional target could protect the ALP from the flight of disaffected Labor climate change voters to the Greens, while the delay and further protection for industry will help protect the jobs of Rudd's "working families." The changes confirm Rudd as a pragmatist who sees the benefits of passage of the CPRS legislation as more important than their economic impact over the next 5-6 years. With economic problems leading the

headlines, Rudd and Wong have softened their initial bid in order to get something they can take into both the 2010 elections and the international arena.

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